



# County of Los Angeles

## CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN  
Chief Administrative Officer

May 5, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE BRATHWAITE BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

### STATE LEGISLATIVE UPDATE

#### **Partial Budget Agreement Reached**

Yesterday, Legislative Leaders announced a bipartisan agreement on \$3.6 billion in budget reductions, which when added to the \$8.3 billion approved earlier, resolves roughly one-third of the budget problem. A summary is attached. The single biggest savings of \$1.85 billion will result from using 5-year pension obligation bonds to make the State CalPERS contribution in the budget year. In addition, \$500 million will be saved by deferring a payment to the State Teacher Retirement System Supplemental Benefit Maintenance Account and \$327.6 million will result from reducing the current year Proposition 98 appropriation to the minimum guarantee level. Much of the remainder results from various reductions and deferrals that do not impact the County. However the following reductions will affect the County or the people it serves:

- \$25 million from suspending half of child support program initiatives for two years;
- \$42.5 million from requiring a semi-annual rather than annual status report by Medi-Cal recipients which will reduce the number of adult recipients by 96,500;
- \$10.1 million from reducing payment for part of the cost of correctional training; and

- \$1 million from eliminating county reimbursement for special election costs.

A \$194 million savings from implementing county administration accountability measures in Medi-Cal reflects savings from more timely eligibility determinations from an increase in eligibility staff and does not negatively impact the County.

Most significantly, a \$500 million one-time reduction to local governments that was in the original proposal is not included in the agreement, nor is the transfer of county undesignated fees to the trial courts or the increase in the sliding fee for commitments to the California Youth Authority. The local government reduction would have cost the County approximately \$70 million and the other two could have cost the County up to \$26 million and \$1.9 million respectively.

Bills reflecting the agreement passed in both chambers today.

### **The Assembly Republican Budget Plan**

On Tuesday, April 29, 2003, Assembly Republicans unveiled a proposal to balance the State budget without a tax increase or most of the fee increases proposed by the Governor. Similar to the February Senate Republican proposal, the Assembly Republican plan accomplishes this feat by adopting a multi-year approach that relies on borrowing. The loan would be paid off over 5 years using a ½ cent of the existing State sales tax.

By borrowing \$10 billion, which is more than the Governor proposed in new taxes, and incorporating some budget savings from actions not included in the Governor's budget such as \$300 million from additional borrowing to finance the State's pension obligations and \$1.1 billion from shifting Medi-Cal payments to a cash basis, the plan is able to actually restore approximately \$2 billion of cuts proposed by the Governor.

The proposal rejects both the Governor's realignment proposal and the taxes that would have financed it. In addition, it rejects any increase in the vehicle license fee or reduction in the current State backfill to local governments. And it assumes none of the \$1.5 billion in revenue from Indian gaming included in the Governor's budget. Nevertheless, it proposes to restore \$2.1 billion of the Governor's cuts, including the following of interest to the County:

- \$721 million to avoid a 15 percent reduction in Medi-Cal rates;
- \$251 million to reject the ERAF shift by Community Development Agencies;

- \$212 million by capping rather than eliminating Medi-Cal dental benefits;
- \$118 million to continue the existing Medi-Cal 1931(b) income levels;
- \$75 million to continue State payment of 80 percent of workers compensation administrative costs; and
- \$15 million to reject library service fees.

Despite the \$2 billion in restorations, the plan includes \$6.7 billion of reductions in the budget year, including many suggested by the Legislative Analyst. Reductions that either do or may impact the County include:

- \$232 million by eliminating COPS and Juvenile Justice Grants;
- \$183 million by eliminating unspecified State-only health programs which may include the Child Health and Disability Program;
- \$110 million by reducing Medi-Cal County Administration 20 percent;
- \$76 million by rescinding the continuous enrollment of children no longer eligible for Medi-Cal;
- \$145 million by eliminating unspecified State-only human services programs which probably includes the Cash Assistance Program for Immigrants and the California Food Assistance Program for Immigrants;
- \$100 million by borrowing CalWORKs performance incentive funds from counties;
- \$26 million by eliminating one-half of the funding for the Child Support Agencies local initiatives program;
- \$20 million by capping total cost per caseworker at \$135,000;
- \$7.5 million by reducing the frequency of group home visits from monthly to quarterly;

- \$7 million by suspending for two years emancipated foster youth stipend and supplemental clothing allowance; and
- \$19 million by eliminating High Tech Law Enforcement Grants.

In addition, the proposal would save \$940 million from a 10 percent reduction in most State operations and assumes a budget freeze in the 2004-05 budget year that would probably save \$4 billion to \$5 billion but entail the denial of increases for education and caseload driven programs.

In addition to their budget proposal, Assembly Republicans are insisting that a budget compromise include certain “structural reforms” that they claim will prevent the State from ever having such a severe budget crisis again. Their reforms include:

- A constitutional amendment on the November 2004 ballot to impose a new spending cap on State spending;
- A constitutional amendment to require that the State budget be balanced at the end as well as the beginning of the fiscal year;
- A constitutional amendment to require a two-thirds vote of the Legislature to approve new fees;
- Legislation to again grant the Governor the power to “amend, alter or revise” a budget after its enactment;
- Mandate relief to allow local governments to discontinue any mandate that the State fails to fund for two years;
- Unspecified Workers Compensation reform;
- Increased flexibility on contracting out by schools and Cal-Trans; and
- A feasibility study of changing the health care delivery system in prisons to an HMO-type system.

While the Governor responded by saying that the proposal depends upon “fuzzy math” and does not add up, the Administration’s response has been fairly muted. The Director of Finance has pointed to some of the problems with the proposal such as onerous cuts

in higher education, an unrealistic cut in State operations and an unrealistic budget freeze in FY 2004-05, but he has stopped short of rejecting it. In fact, the Administration has essentially accepted the notion of borrowing to finance the deficit but is claiming that lenders will insist on a new revenue stream to repay the bonds rather than the dedication of an existing stream revenue as in the proposal.

The proposal seems to represent a major step toward resolving the budget crisis, especially in light of the fact that both Republican caucuses are now willing to vote for the pension obligation bond/ budget cut package that they had previously blocked and which needs to be enacted by May 5 to achieve full savings. In this proposal, Assembly Republicans have joined with Senate Republicans to endorse borrowing to solve a substantial part of the budget problem, which the Governor and the Democrats will accept as preferable to budget cuts. The only large remaining budget issue is how much borrowing and how it will be financed, with the Administration insisting that it requires a new, dedicated revenue stream to assure lenders and get around the Proposition 98 guarantee.

Assuming that there are the required minimum of Republicans necessary to approve a temporary one-half cent sales tax to finance the deficit borrowing, two of the Administration's main concerns are resolved, reducing the risk to lenders and eliminating the need for a spending freeze in FY 2004-05 to offset the \$2.3 million loss from dedicating one-half cent of the existing sales tax for debt service. If one then adds the pulling of the trigger on the VLF which can happen without Republican approval, the \$4 million in revenue that results will reduce the overall level of cuts required by more than half.

Of course, the devil is in the details and things could fall apart over the "structural reforms" that the Republicans are requesting, although they run a significant risk if they hold up the budget and push the State into fiscal crisis over non-budget issues. In addition, until the May Revise is released, we will not know how much larger the budget gap has grown and what additional measures may be needed to close it. The Franchise Tax Board, for example, recently reported that income tax receipts are \$600 million below the estimates used in the Governor's budget.

### **Status of County-Interest Legislation**

**County-Supported AB 74 (Mountjoy)**, which would make it a felony or a misdemeanor to evade arrest and increase penalties for evading arrest where injury is caused, failed to pass the Assembly Committee on Public Safety by a vote of 1 to 5, on April 22, 2003.

**County-Supported AB 355 (Pacheco)**, which would amend the definition of escape from custody by a juvenile to include escape or attempted escape from a regional facility, a privately owned facility, or at a field trip site, passed the Assembly Appropriations Committee by a 24 to 0 vote on April 30, 2003, and will go to the Assembly Floor.

**County-Supported AB 936 (Reyes)**, which would make it a crime to loiter, prowl or wander about and refuse to leave, or fail to leave a neonatal unit, maternity ward, or birthing center located in a hospital or clinic, passed the Assembly Appropriations Committee, by a 24 to 0 vote on April 30, 2003, and go to the Assembly Floor.

**County-Supported SB 957 (McClintock)**, which would enact the Congestion Relief Act for the 21<sup>st</sup> Century and would define a transportation gridlock emergency as a condition that requires extraordinary State action, failed to pass the Senate Transportation Committee on April 29, 2003, but it was granted reconsideration.

#### **Status of County-Interest Workers' Compensation Legislation**

**County-supported AB 87 (Bogh)**, which would, in the event of a budget impasse, provide a continuous appropriation to pay workers' compensation for injuries incurred by disaster service volunteers during a disaster, was placed in the Assembly Appropriations suspense file at its April 30, 2003 hearing.

**County-opposed AB 1324 (Steinberg)**, which would provide that if certain public safety members contract a blood-borne infectious disease, and a dependent of that person contracts the same disease from that person, the dependent may elect to receive compensation under the workers' compensation law for all medically necessary health care costs associated with the disease, passed out of the Assembly Committee on Insurance on April 30, 2003. Recent amendments provide that if the dependent elects to receive workers' compensation benefits, they forfeit their rights to file any civil claims.

**County-supported AB 1483 (Richman and Daucher)**, which requires every physician who treats and evaluates injured workers on and after January 1, 2006, to be certified by the Industrial Medical Council as a Qualified Workers' Compensation Physician, passed out of the Assembly Committee on Insurance on April 30, 2003.

The following bills were heard in the Assembly Committee on Insurance on April 30, 2003 and failed passage but were granted reconsideration. Committee members indicated that many of the ideas in these bills should be included in an

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omnibus bill for workers' compensation reform. Our Sacramento advocates also report that there is a growing belief in the Legislature that this issue will be handled as part of budget negotiations with the Republican leadership, who have placed workers' compensation reform at the top of their priority list.

**County-supported AB 431 (Mountjoy)**, would provide that workers' compensation laws be liberally construed only after it is determined that an injury is work-related and is a specific injury. For cumulative injuries, there must be a preponderance of evidence proving job relatedness.

**County-supported AB 1480 (Richman)** would require an applicant for employment, upon the request of an employer, to disclose whether he or she has ever been convicted of committing any workers' compensation fraud or been convicted of violating other specified unlawful acts relating to fraud.

**County-supported AB 1481 (Richman)** provides that in denying apportionment in workers' compensation injuries, the Workers Compensation Appeals Board may only accept medical reports that address the issue of apportionment of the injury or illness to other previous injuries, and whether they are work-related, in determining permanent disability. Such reports are also required to apportion a previous injury or illness that has been the subject of a prior claim for damages.

**County-supported AB 1482 (Richman)** would require all medical services provided to a worker from the date of injury be subject to the official medical fee schedule, regardless of the date the injury is accepted as, or determined to be, compensable.

DEJ:GK  
MAL:JR:DDN:ib

#### Attachments

c: Executive Officer, Board of Supervisors  
County Counsel